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TELSTAR

UNIVERSITY OF ALBERTA

JUL 30 1984

REFERENCE DEPARTMENT

Telstar Resources Ltd. • 1983 Annual Report

Corporate Profile

Telstar Resources became a public company in 1971 and the majority of common shares were held by the Kary family until September 1981. The Company has an operating base in Canada and the United States although recent emphasis has been on the U.S. Successful drilling in Texas has led to an important increase in oil production and future programs will continue to be directed to exploiting known reserves in the U.S. At the same time Telstar plans a cautious return to natural gas exploration in Canada. Shares of the Company trade on the Alberta Stock Exchange under the symbol TST.

Annual Meeting

The Annual General meeting of the Shareholders of the Company will be held November 23, 1983 at 1:30 p.m. in the Board Room of The 400 Club, 710 - 4th Avenue S.W., Calgary, Alberta.

Highlights

Financial

	1983	1982
Gross Production Revenue (after royalties)	\$1,962,980	\$1,222,799
Other Revenue	297,010	6,535
Cash Flow from Operations	411,954	(76,616)
Cash Flow from Operations per Share	\$.0485	(\$.009)
Net Income (Loss)	(305,184)	(2,624,229)
Net Income (Loss) per Share	(\$.04)	(\$.33)
Working Capital	(73,779)	(220,041)
Long Term Debt	5,518,280	3,939,540
Total Assets	8,450,333	7,893,205
Capital and Exploration Expenditures	1,977,747	3,077,059
Common Shares Outstanding	8,500,014	8,500,014

Operations

Production — Gross before royalties		
Crude Oil and Natural Gas Liquids (bbls)	33,347.5	6,730
Natural Gas (mcf)	415,353.3	471,420
Sulfur (tonnes)	1,313.1	1,507

Reserves

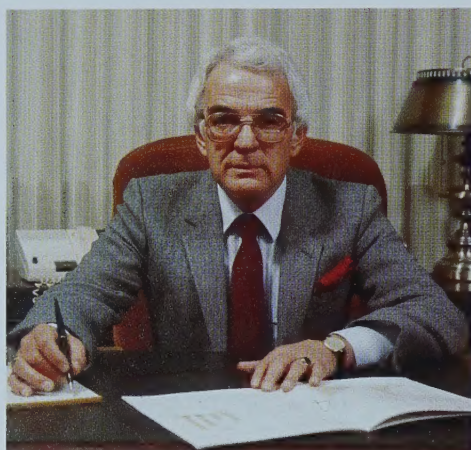
Proven and Probable after royalties		
Crude Oil and Natural Gas Liquids (mbbls)	140.9	135.7
Natural Gas (mcf)	9,852,000	9,994,900
Sulfur (m tonnes)	47.2	42.2

UNIVERSITY OF ALBERTA

JUL 30 1984

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Report to the Shareholders



Kenneth M. Kary,
President and Chairman of the Board

The past fiscal year was extremely satisfying for Telstar Resources. The Company achieved marked financial improvement while also chalking up a 395% increase in crude oil production and successfully proving up essentially all of its crude oil reserves. Before expanding on the past year's performance it may be useful to briefly review how the Company came to be where it is today.

Telstar was born June 28, 1971 out of the combined assets of two other private companies, Kary Exploration Ltd. and Madeira Holdings Ltd. A family-run operation, Telstar's principals have hands-on experience in several disciplines within the oil and gas industry. This high level of corporate expertise enables the Company to keep costs at a minimum.

During the early years the Company took advantage of strong gas export markets and concentrated on exploring for, developing and producing natural gas reserves in Alberta. Today Telstar has net proven Canadian reserves of 7.3 billion cubic feet and has been able to secure contracts for 82% of this gas.

In 1978 Telstar followed the lead of Park Lane Developments Ltd., an affiliated company with mutual shareholders, and expanded its operations to the United States in a move to broaden its asset base.

Telstar established itself in the U.S. initially through investment in low-risk gas plays. Gradually the Company was able to acquire working interests in medium risk gas and oil prospects in the Gulf Coast region of Texas. By October 1980, when Ottawa introduced the National Energy Program, Telstar was

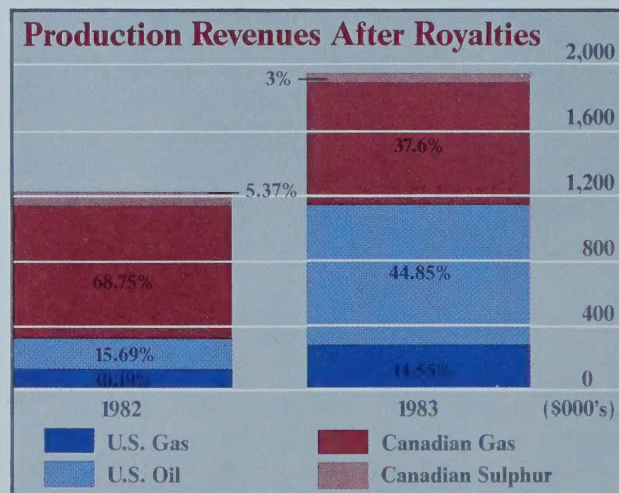
already one step ahead of the many junior oil and gas companies that began moving their operations south of the border.

In 1981 Telstar curtailed its exploration activities in Canada and turned its attention primarily to the U.S. where the markets for both oil and gas provided the producer with a greater rate of economic return. Capital funding for the U.S. program was supplied by a public offering of 800,000 shares that netted the Company \$2.4 million in September 1981. Shortly afterward Telstar acquired the assets of Park Lane Developments Ltd. and Park Lane Exploration Inc., consisting of \$1.1 million (U.S.) in cash and \$1.2 million (U.S.) in oil and gas reserves, for 700,000 shares of the Company.

During 1982 the Company chose to focus its exploration thrust in Texas where excellent opportunities exist for investment in low to medium risk plays and the markets and pipeline infrastructure for both oil and gas are well established. Successful wildcat drilling in 1982 resulted in several prospects with the potential to add significantly to production revenues. The emphasis in fiscal 1983 was on developing these prospects.

In a year when the continuing effects of a worldwide recession were still being felt, Telstar set out to reduce unnecessary costs, shield itself from the uncertainty of marketing and pricing controls imposed on the domestic oil and gas industry and increase cash flow during 1983.

Park Lane Developments Ltd. was liquidated during the year and all assets of the company were absorbed by Telstar. The consolidation will streamline administration expenses and complements



an earlier decision by the Company to computerize its land, production, well, historical and accounting systems.

By concentrating on the Texas properties Telstar was able to accomplish its two other goals. The Company participated in 20 wells during the past year, 18 of which were in Texas. Drilling was directed towards exploiting proven reserves that could be placed on production quickly, generating quick cash flow. Particular importance was attached to the Dilworth Ranch prospect in McMullen County and the N.E. Harleton prospect in Harrison County, both prolific oil and gas plays with high reserve potential.

As a result of concentrated drilling and new wells coming onstream in Texas, gross oil production multiplied to 33,348 barrels, a 395% increase over the 6,730 barrels produced in fiscal 1982.

Overall reserves of crude oil improved slightly from the previous year to 140,900 barrels, and development drilling was successful in proving up essentially all of these reserves. Natural gas production declined marginally due to slackening demand for domestic and export sales of Canadian gas.

Telstar's performance during fiscal 1983 is mirrored in gross production revenues which reached \$1.96 million, up 60% from fiscal 1982. This increase was achieved despite lower Canadian contracted gas sales and can be attributed primarily to new oil wells coming onstream on Telstar's Texas properties. Cash flow from operations improved dramatically to \$411,954 from a cash flow deficit of \$76,616 in fiscal 1982.

By concentrating during the past year on exploiting known reserves, Telstar has reached the point where it is deriving more than 50% of its cash flow from its U.S. operations. This will help protect the Company from the impact of any further weakening of Canadian gas markets.

Although the immediate outlook for natural gas in Canada remains pessimistic the Company sees opportunities for renewed sales by early 1985. To that end Telstar intends to return to exploration activity in Canada in areas where the Company has operating experience. One such prospect is North Coleman.

Late in fiscal 1983 Telstar entered into a farmin agreement on a large block of undeveloped acreage adjacent to the Coleman producing sour gas field, a field the Company was instrumental in discovering back in 1971. A Devonian test is currently being

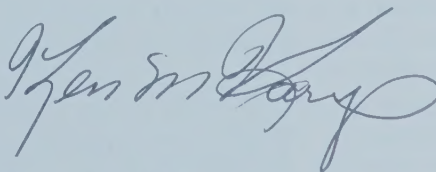
drilled on the acreage that could double Telstar's Canadian gas reserves. The Company plans to spend approximately \$1 million on this property over the next 12 months in anticipation of gas sales in early 1985.

In the U.S., Telstar will continue a high level of development activity on those properties that offer early production and sustained cash flow while also conducting increased exploratory drilling on selected prospects.

The Company still holds large undeveloped tracts of land in Texas and Montana. In Walker County, Texas, Telstar has secured an option on 8,672 acres allowing the Company to increase its working interest position to 100% from 12.5%. Management is currently formulating plans for a 24,000-foot gas test on the prospect sometime in fiscal 1984. In Cascade County, Montana, Telstar has acquired a 100% interest in a 10,415 acre prospect that has indicated hydrocarbon potential in six different zones. The Company will drill a 2,400-foot exploratory well on the property during 1984.

The coming year promises to be an exciting period of growth for the Company and its shareholders. In addition to re-entering the Canadian exploration scene and pursuing a well rounded program of U.S. activity, Telstar is contemplating further strengthening cash flow through the acquisition of existing production.

Submitted on behalf of
the Board of Directors



Kenneth M. Kary
President and
Chairman of the Board

Report on Operations

Telstar's efforts during the past year were directed towards exploiting known reserves that could be placed on production quickly and provide long term revenues.

The Company's Canadian operations have historically centred around natural gas exploration. Successful drilling has resulted in proven reserves of 7.3 billion cubic feet of which 82% is onstream. Since the market for new domestic gas sales remains depressed, Telstar continued in fiscal 1983 to stress its United States properties.

Through an affiliate, Telstar has been active in the U.S. since 1976. The Company established its position initially through investment in low risk gas plays. When Canada's National Energy Program was introduced in 1980, Telstar had already gained valuable operating experience in the U.S. and was able to upgrade its Texas land holdings to include medium risk oil and gas prospects. The Company has focused recent exploration efforts on evaluating these prospects. By the beginning of its fiscal year Telstar had a working interest in a number of oil and gas plays with the potential to generate significant revenues.

Proximity to existing pipelines and the availability of markets for both oil and gas led the Company to direct the majority of its financial and technical resources in fiscal 1983 to the development of its Texas properties.

As a result of this decision the Company has reached the point where it is now deriving more than 50% of its cash flow from its U.S. operations. This will help shield Telstar from the uncertainty of marketing and pricing controls imposed on the Canadian petroleum industry.

The Company participated in 20 wells during fiscal 1983, 13 exploratory and seven developmental. Texas drilling accounted for 18 wells with the principal areas of interest being the Dilworth Ranch prospect in McMullen County and the N.E. Harleton prospect in Harrison County, both prolific oil and gas plays.

The Company enjoyed a high level of achievement in its development activity, drilling three gross oil wells, two gross gas wells and two dry holes for a success ratio of 71%.

By concentrating drilling in Texas, gross oil production before royalties increased dramatically to 33,348 barrels, from 6,730 barrels in fiscal 1982. Natural gas production declined by 12%, primarily due to restricted sales markets in Canada.

Although the immediate outlook for domestic gas remains somewhat clouded, Telstar anticipates an improvement in export markets by 1985. As a result the Company has decided to renew its exploration efforts in Canada through participation in low risk plays in familiar areas where there are strong prospects for near-term gas sales. One such area is North Coleman, Alberta, a large block of undeveloped acreage adjacent to an existing sour gas field.

Subsequent to year-end an incentive exploratory well was spudded at North Coleman, Alberta that has the potential to double Telstar's Canadian gas reserves. Geological and seismic analysis indicate the well could establish a significant new pool to the north of the existing Coleman reservoir. This 240 billion cubic foot reservoir was discovered by Telstar and several industry partners in 1971 and is currently producing sour gas at the rate of 21 million cubic feet per day with sales gas at the rate of 16 million cubic feet per day.

The Company has budgeted to spend \$1 million on the North Coleman prospect over the next 12 months in anticipation of new gas sales in early 1985. In the U.S. Telstar will continue its emphasis on developing those oil and gas properties that offer early production and sustained cash flow while conducting increased exploratory drilling on selected undeveloped lands in Texas and Montana.

Prospect Highlights

United States

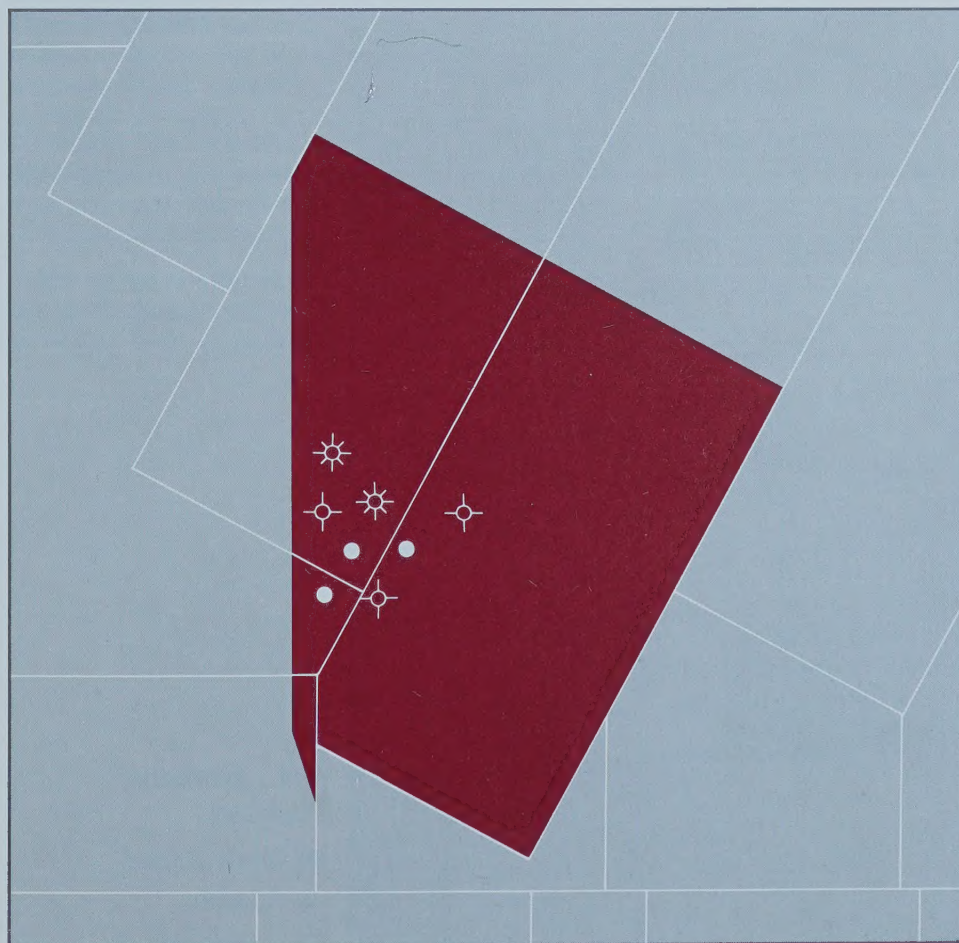
Dilworth Ranch Prospect McMullen County, Texas

Telstar has a 36.5% working interest in 2,000 gross acres (730 net acres) on this multi-zone oil and gas prospect. The Company participated in seven wells in fiscal 1983, for a total of eight wells to date on the prospect. Drilling has resulted in three Wilcox oil wells, two Wilcox gas wells and three dry holes.

All three oil wells are on production at a cumulative rate of 120 barrels per day. In August, Telstar entered into a medium-term gas sales agreement with a Texas purchaser. Initial volumes were expected to be onstream by mid-November at a rate of approximately two million cubic feet per day. An independent consultant has estimated Telstar's share of Dilworth reserves at 1.97 billion cubic feet of gas and 93,100 barrels of oil.

While most of the activity during the past year was of a developmental nature according to standard industry drilling definitions, the geology of the Dilworth area is so complex that all wells are classified as wildcats.

In addition to production from the Wilcox and Mula horizons, geological surveys indicate the presence of sour gas in the deeper Edwards reef formation. But due to the non-conforming nature of the play, which is characterized by multiple faulting, these reefs are almost impossible to pinpoint without the aid of seismic. A detailed 22-mile seismic program was recently completed which will enable the Company to better evaluate the geological structures. Early analysis suggests additional well locations exist within the prospect area. Telstar and its partners already have an indicated gas purchaser for any successful drilling.



Dilworth Ranch Prospect

- Telstar acreage
- Oil well
- ☼ Gas well
- Abandoned

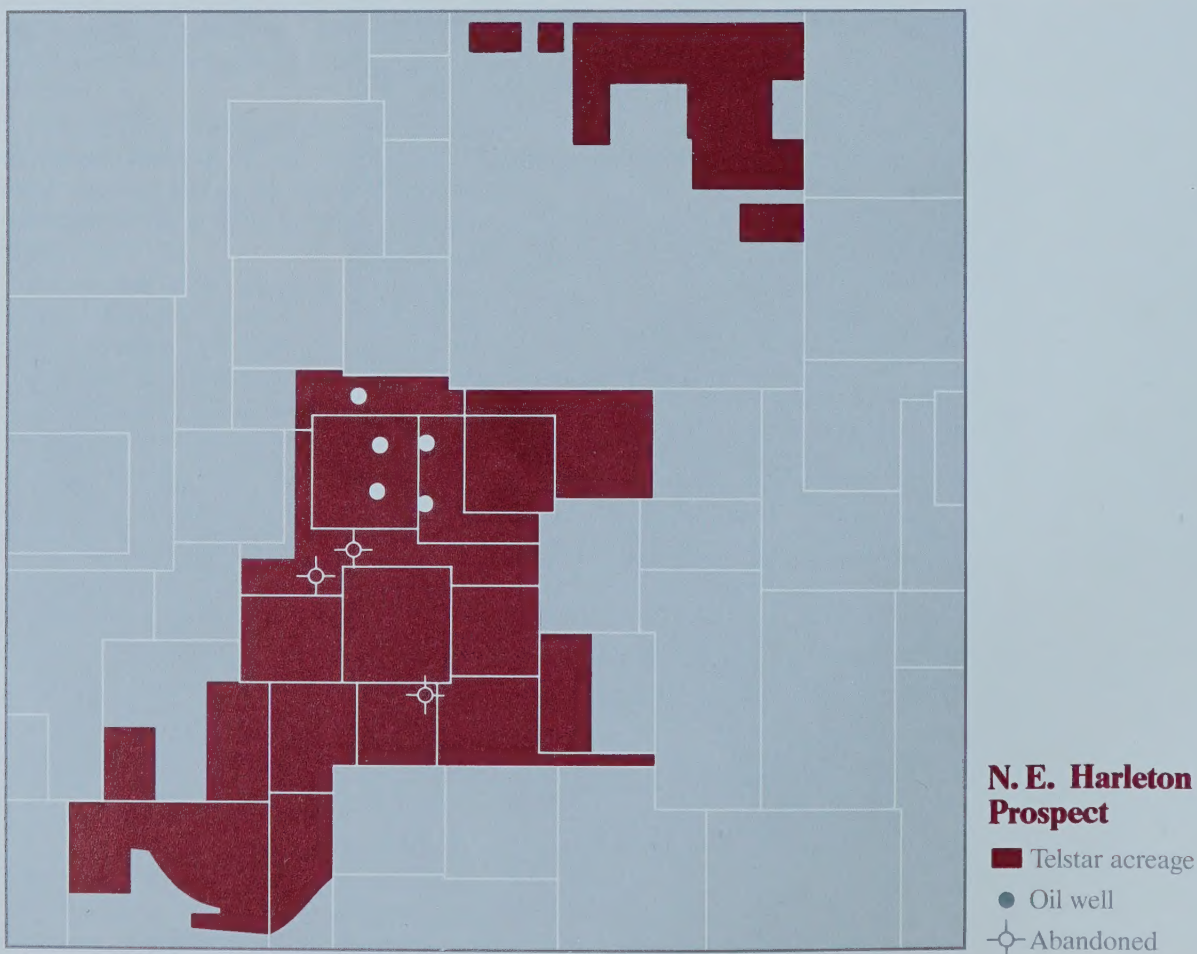
N.E. Harleton Prospect Harrison County, Texas

The Company is continuing with an ongoing development program on this 1,643 gross acre (197 net acres) prospect. Drilling during the past year resulted in two oil wells and two dry holes. The program to date has included a total of eight wells for five oil wells with a high gas ratio and three dry holes. Reserves in the N.E. Harleton field have been independently appraised at 108 million cubic feet of gas and 17,800 barrels of oil net to the Company.

Wells on the prospect are currently producing at a cumulative rate of 200 barrels per day of oil and 1,600,000 cubic feet per day of gas from the Pettet horizon. Telstar has a 12% working interest in this production. All gas in this area is under an existing contract with immediate markets available for future production.

Trinity Prospect Walker County, Texas

The Company holds a 12.5% working interest in 9,534 gross acres (1,292 net acres) in Walker County. Although past drilling has produced disappointing results in the shallow horizons, Telstar is confident that the deeper targets are highly prospective. Geophysical surveys have defined a large seismic structure in the Cotton Valley formation. Consequently, the Company has taken steps to secure an option on 8,672 acres that will enable it to increase its ownership to 100% at land costs. Tentative plans are currently being formulated for a 24,000-foot test of the Cotton Valley formation during fiscal 1984.



Black Butte Prospect Cascade County, Montana

In September 1982, the Company acquired a 100% position in this 10,415 acre prospect located approximately 35 miles southeast of Great Falls. Geological studies of the area suggest the existence of numerous locations with the potential for hydrocarbon discoveries in six different zones. Oil wells in this region can be economically produced at 10 barrels per day although much higher rates may be expected. Telstar intends to drill a 2,400-foot exploratory test on the prospect this year.

Bill Boyce Prospect Hughes County, Oklahoma

Telstar holds a 6.25% working interest in 640 gross acres (40 net acres) in this area. Drilling during the past year resulted in one gas and one oil well, bringing the total number of producing wells on the property to four. The oil well is currently producing 26 barrels per day from the Cromwell formation. Three Hartshorne gas wells are delivering one million cubic feet per day under a take or pay contract. Telstar's net gas reserves have been independently appraised at 57 million cubic feet. Net oil reserves are estimated at 3,500 barrels. Subsequent to year-end the Company participated in a second Cromwell oil well which will boost future cash flow from the property.

Telstar has additional land holdings and natural gas production in other areas of Texas and Oklahoma as well as West Virginia and California.

Canada

Seven Persons, Alberta

Telstar operates 73 producing Medicine Hat gas wells on this 12,800 gross acre (4,138 net acres) prospect in southeast Alberta. The Company has a 27.88% interest in 35 wells and a 46.88% interest in a further 38 infill wells. Gas production of 1.4 million cubic feet per day is contracted to Canadian Western Natural Gas Company Ltd. Telstar's share of proven reserves is estimated at 1.46 billion cubic feet.

Plain Lake, Alberta

The 17,792 gross acre Plain Lake field contains nine producing and three shut-in gas wells. The Company has varying interests from .89% to 12.5% for a net acreage position of 1,323 acres. The field is estimated to contain proven reserves net to the Company of 1.4 billion cubic feet in the Mannville, Camrose, Colony and Nisku formations.

Telstar has additional shut-in gas wells at Birch Lake and Bassano and land holdings at Provost and Nordegg. In British Columbia, the Company holds a 75% interest in 640 gross acres (480 net acres) of Crown land at Murdale in the province's Peace River Block. Drilling by other operators in the area indicates the presence of oil-bearing reservoirs and Telstar will be watching the development of this play with a great deal of interest.

North Coleman, Alberta

The North Coleman prospect marks Telstar's decision to return to natural gas exploration in Canada in areas where it has considerable operating experience. The Company has entered into a farmin agreement covering acreage immediately to the north of the existing Coleman producing sour gas field.

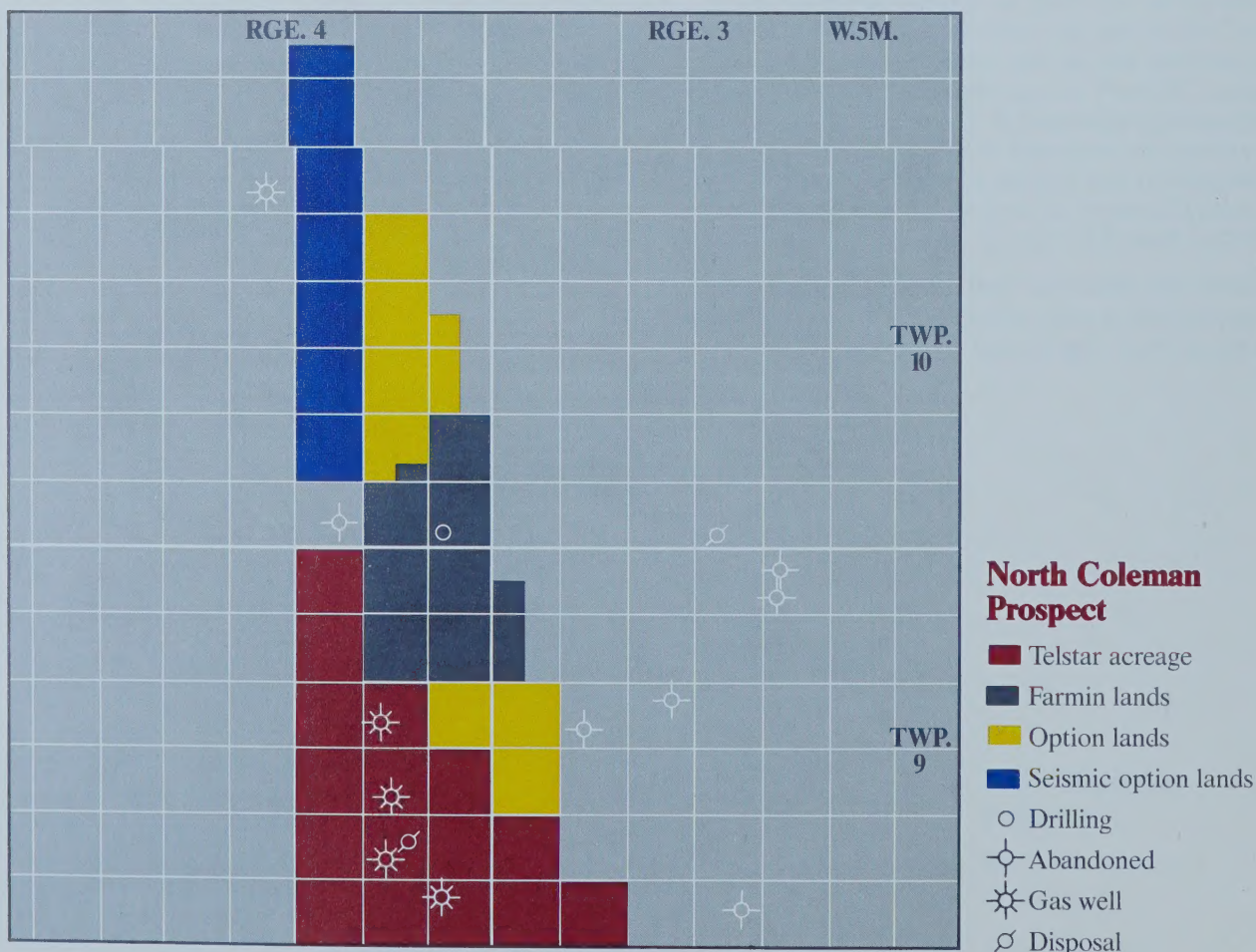
This field was discovered by Telstar and other partners in 1971. The Company subsequently turned over operatorship to Coseka Resources Ltd. and retained a three per cent working interest in 20,080 gross acres (608 net acres).

Coleman is Telstar's largest source of Canadian production revenue. Sales gas from the four wells on the property is contracted to Alberta and Southern Gas Company Ltd. at the rate of 40 million cubic feet per day but the purchaser is currently only taking delivery of roughly 16 million cubic feet per day. Estimated initial reserves in place for the field

include 80 billion cubic feet in the Devonian and 160 billion cubic feet in the Mississippian formations.

Under the terms of the farmin, Telstar is participating in a two-mile stepout from the existing Coleman field to earn eight sections of land and increase its working interest in the area to 10.5% before payout and 7.5% after payout. The test well spudded early September 1983.

Geological and seismic surveys indicate the well could establish a new Devonian pool to the north of the producing field. Successful completion could result in a doubling of Telstar's Canadian gas reserves. The well is classified as exploratory, qualifying for full provincial incentive credits and a two-year royalty-free holiday. Upon drilling the earning well Telstar has 120 days in which to elect to drill an option well for an additional 7.5 sections of land. The Company has budgeted to spend \$1 million on the North Coleman prospect over the next 12 months in anticipation of gas sales in early 1985.



Land Summary

As of June 30, 1983 the Company held varying interests in 94,595 gross acres or 23,591 net acres in Canada and the United States. In addition Telstar has acquired an option on 8,672 acres in Walker County, Texas which, if exercised will net the Company a further 7,588 acres in that state.

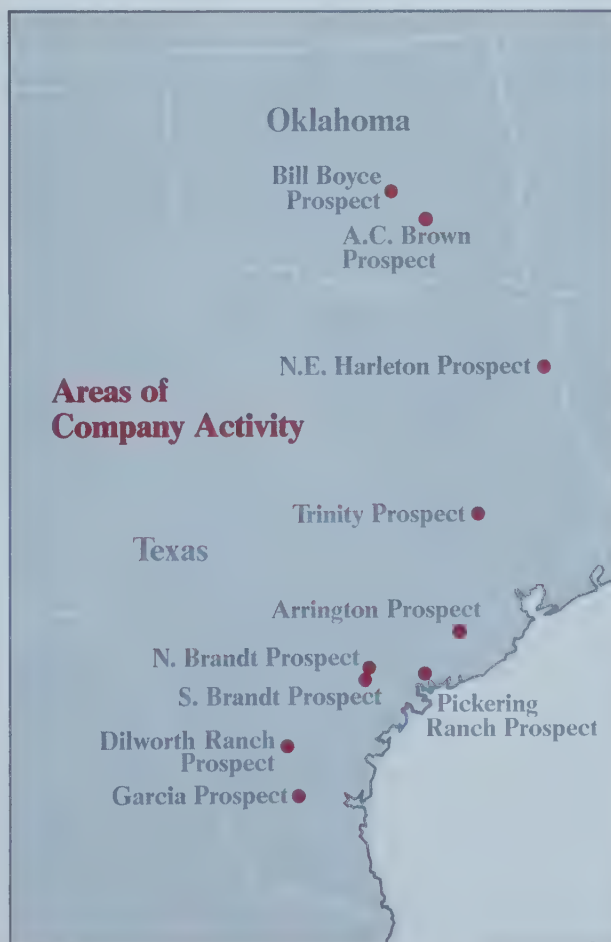
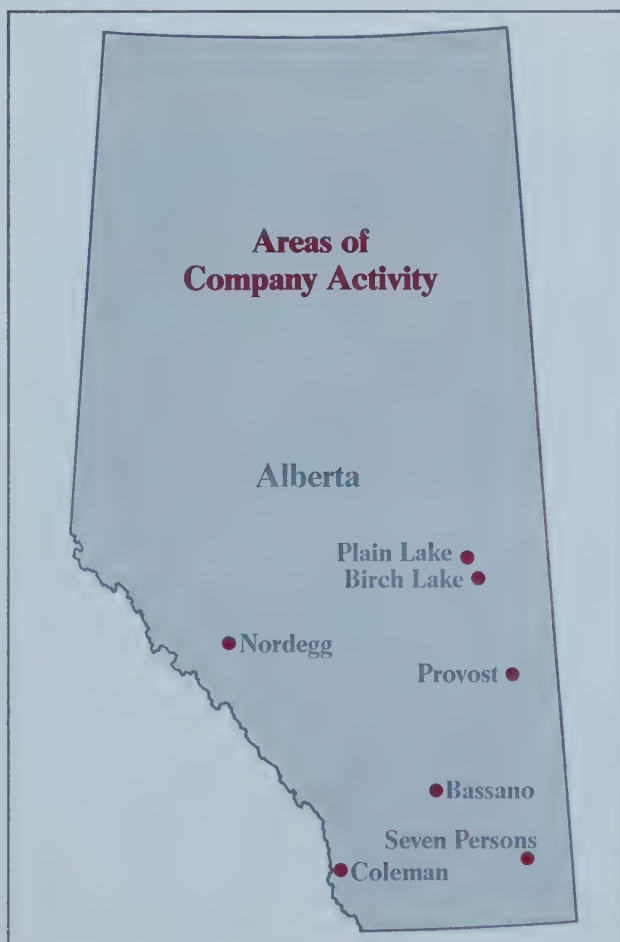
Canadian land holdings total 56,105 gross acres (8,466 net acres) with the majority located in Alberta, where Telstar has concentrated its exploration and development activity in gas-prone regions.

In the U.S. the bulk of Telstar's producing land position is in Texas although the Company also has a 100% interest in 10,415 exploratory acres in Montana.

Land Summary

	Gross	Net
Canada		
Alberta	55,465.00	7,986.23
British Columbia ...	640.00	480.00
Total Canada	56,105.00	8,466.23
United States		
California	4,149.05	295.32
Montana	10,415.48	10,415.48
Oklahoma	3,150.16	1,135.30
Texas	20,775.08	3,278.57
Total United States ...	38,489.77	15,124.67
Total Canada and United States	94,594.77	23,590.90

The Company also has an overriding royalty of .01069 on 860,000 acres offshore Tasmania, Australia.



Production and Reserves

The successful exploitation of two key Texas properties during fiscal 1983 led to an enormous increase in oil production and the proving up of essentially all the Company's reserves of crude oil and condensate.

Gross production of crude oil and condensate expanded from 6,730 barrels in fiscal 1982 to 33,348 barrels, a 395% increase. The improvement can be attributed almost entirely to new wells coming onstream at the Dilworth Ranch and N.E. Harleton prospects. Telstar now has an interest in 15 producing oil wells in the U.S. The Company has no Canadian oil production or reserves.

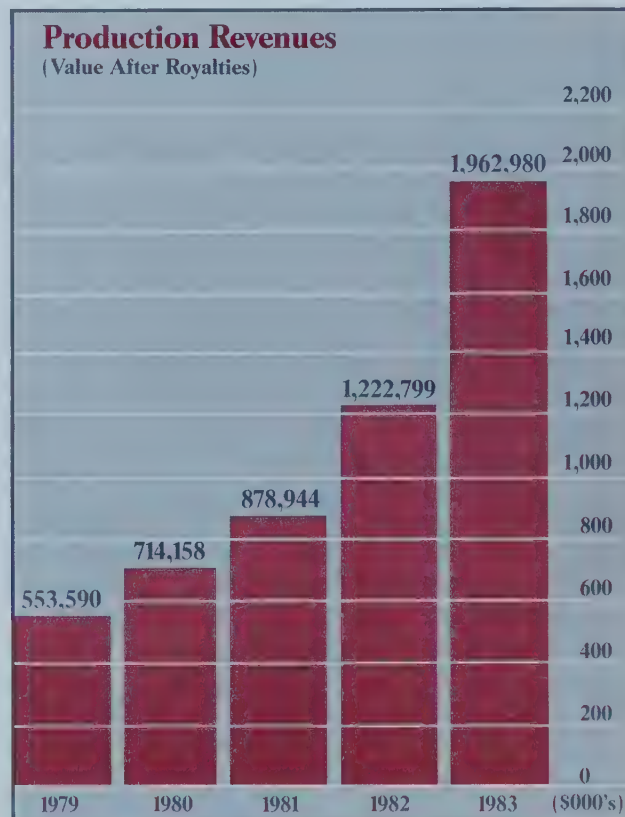
Net reserves of crude oil and condensate increased during the year from 135,700 barrels to 140,900 barrels according to an independent consultant's appraisal. The most significant change was in the proven reserves category. At the end of fiscal 1982 net proven reserves amounted to 93,000 barrels. As a result of successful drilling over the past year, essentially all the Company's reserves of 140,900 barrels of crude oil are now classed as proven.

Gross production of natural gas declined by 12% during the fiscal year to 415.4 million cubic feet from 471.4 million cubic feet. The decrease was due to a weakening of demand for Canadian gas.

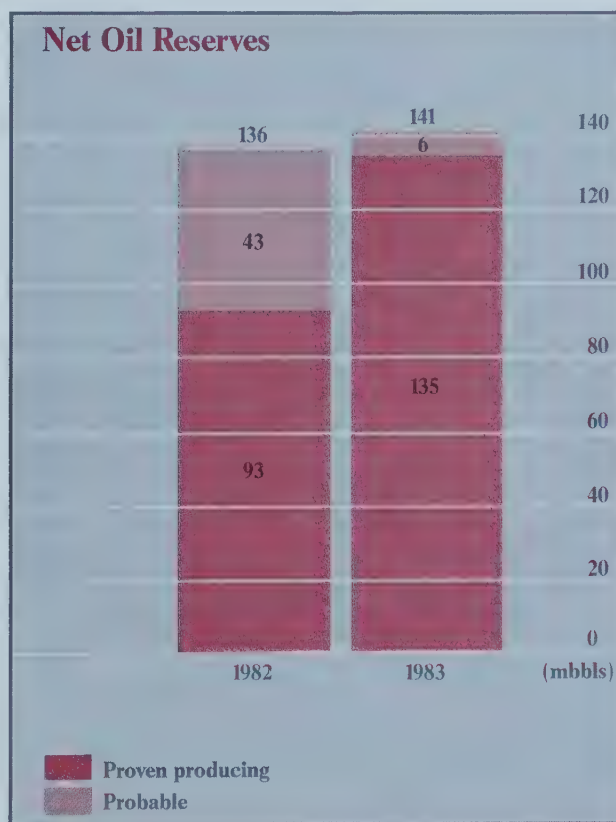
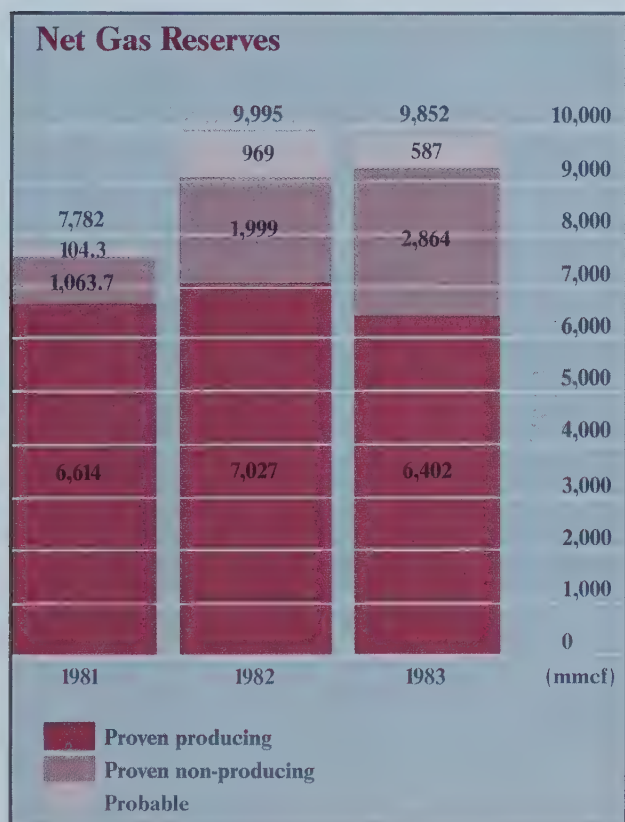
The Company has an interest in 92 gas wells in Canada with net proven reserves estimated at 7.3 billion cubic feet of which 82% is under contract. Additional probable reserves amount to 20 million cubic feet.

In the U.S. Telstar has an interest in 22 producing gas or gas and oil wells and another location is to be tied-in during the fourth quarter of 1983. Net proven U.S. gas reserves have been independently evaluated at 1.9 billion cubic feet. Net probable reserves amount to an estimated 567 million cubic feet for a total of 2.5 billion cubic feet.

Reserves of Canadian sulfur increased during the year to 47,200 tonnes from 42,200 tonnes. Sulfur production however, tracked Telstar's natural gas sales, declining marginally from 1,507 tonnes to 1,313 tonnes.



Canada Gas (\$ Cdn.)	mmcf	Undiscounted Value	Discounted 15% Value
1982 Report	8509.9	\$ 64,202,796	\$ 7,783,155
Revision of prior estimates	(831.6)	(26,211,770)	(2,892,356)
Production (net after royalties)	(330.3)	325,599	(325,599)
1983 Report	7348.0	\$ 37,665,425	\$ 4,565,200
Canada Sulfur (\$ Cdn.)	m tonnes		
1982 Report	42.2	\$ 12,665,259	\$ 946,085
Revision of prior estimates	6.3	(9,864,210)	(301,805)
Production (net after royalties)	(1.3)	(58,880)	(58,880)
1983 Report	47.2	\$ 2,742,169	\$ 585,400
U.S. Gas (\$ U.S.)	mmcf		
1982 Report	1488.6	\$ 7,703,453	\$ 2,009,067
Revision of prior estimates	(410.0)	(4,526,063)	(370,342)
Added by drilling	1494.0	4,790,512	2,946,100
Production (net after royalties)	(68.6)	(217,525)	(217,525)
1983 Report	2504.0	\$ 7,750,377	\$ 4,367,300
U.S. Oil (\$ U.S.)	mbbls		
1982 Report	135.7	\$ 3,086,314	\$ 2,368,151
Revision of prior estimates	(24.3)	124,650	(416,560)
Added by drilling	54.2	1,823,800	833,700
Production (net after royalties)	(24.7)	(560,079)	(544,991)
1983 Report	140.9	\$ 4,489,773	\$ 2,240,300



Financial Review

The financial statements for the year ending June 30, 1983 reflect a year of successful operations for the Company, particularly in the United States. The concentrated development of Texas oil reserves boosted production revenues significantly. Total revenues net of royalties increased 84% to \$2,259,990 from \$1,229,334 in fiscal 1982. The trend is expected to continue well in 1984 due to the gas sale agreements recently confirmed in Texas.

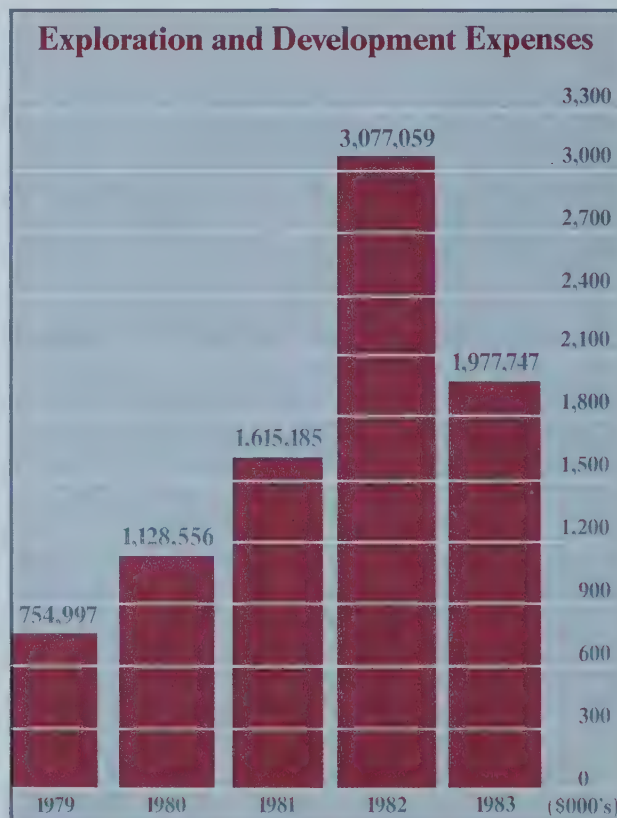
Long term debt increased during the year to \$5,518,280 from \$3,939,540 with the increase applied to Telstar's exploration and development program. As a result interest expenses increased from \$529,617 in 1982 to \$655,522 in 1983. However, this is not proportionate to the increase in principal due to a declining interest rate as well as alterations to production loan agreements.

Capital and exploration expenditures decreased from the previous year by just over \$1 million to \$1,977,747 from \$3,077,059 in fiscal 1982. However, the high level of expenditures in 1982 reflects the use of funds raised through the issuance of shares and the disposition of a resource property. In fiscal 1984 cash flow is expected to increase which will be reflected in a corresponding increase in exploration activities.

Depletion and depreciation is an attempt by accountants to allocate the costs of finding marketable hydrocarbons in relationship to those produced throughout the year. Telstar uses a unit of production method of accounting where the costs are calculated by using the ratio between the produced

oil and gas over the reserves in place. In a year such as 1983 when reserve estimates — both in volume and value — are conservative compared to the previous year, the depletion expense will increase. In the case of this year's financial reports the positive cash flow from operations of 4.8¢ per share became a net loss per share of 4.0¢ after accounting for depletion and other non-cash items.

The general and administrative costs shown in the statements do not fully reflect the costs attributed to the fiscal year ending June 30, 1983. In fact, incorporated into the \$623,089 attributed to general and administrative is \$112,200 costs related to the year ending 1982. Without these costs the general and administrative expense would have decreased by approximately 13.6%. Telstar has not capitalized any of its general and administrative expenses or its interest costs.



**Consolidated
Financial Statements**

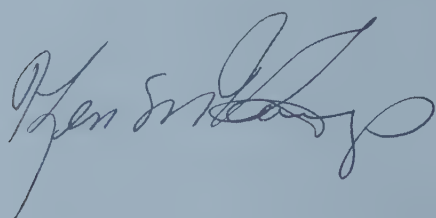
TELSTAR RESOURCES LTD.

Consolidated Balance Sheet

AS AT JUNE 30, 1983

Assets	1983	1982
CURRENT ASSETS		
Accounts receivable (Note 3)	\$ 290,139	\$ 986,776
Prepaid expenses	12,500	12,500
Receivable from parent company	—	9,798
	302,639	1,009,074
PROPERTY AND EQUIPMENT (Notes 2 and 3)	8,147,694	6,884,131
	\$8,450,333	\$7,893,205
Liabilities		
CURRENT LIABILITIES		
Bank overdraft	\$ 42,190	\$ 179,078
Accounts payable and accrued liabilities	334,228	1,050,037
	376,418	1,229,115
DEFERRED REVENUE	210,819	121,994
LONG-TERM DEBT (Note 3)	5,518,280	3,939,540
DEFERRED INCOME TAXES (Note 1)	494,838	447,394
	6,600,355	5,738,043
Shareholders' Equity		
SHARE CAPITAL (Note 5)	4,623,121	4,623,121
DEFICIT	2,773,143	2,467,959
	1,849,978	2,155,162
	\$8,450,333	\$7,893,205

Approved by the Directors

 , Director

 , Director

See accompanying notes.

TELSTAR RESOURCES LTD.

Consolidated Statement of Loss

FOR THE YEAR ENDED JUNE 30, 1983

	1983	1982
REVENUE		
Oil, gas and sulfur	\$1,962,980	\$1,222,799
Other	297,010	6,535
	2,259,990	1,229,334
EXPENSES		
Lease operating	659,980	507,823
Depletion and depreciation	701,138	392,234
Interest — long-term	655,522	529,617
General and administrative	623,089	478,668
	2,639,729	1,908,342
Oil and natural gas properties written down	—	2,150,000
LOSS BEFORE INCOME TAXES AND PETROLEUM AND GAS REVENUE TAX	379,739	2,829,008
Recovery of (provision for) income taxes — current	90,555	109,279
— deferred	(16,000)	150,500
	74,555	259,779
Petroleum and gas revenue tax	—	(55,000)
	74,555	204,779
NET LOSS	\$ 305,184	\$2,624,229
LOSS PER SHARE (Note 1)	(.04)	(.33)

Consolidated Statement of Deficit

FOR THE YEAR ENDED JUNE 30, 1983

	1983	1982
DEFICIT (RETAINED EARNINGS) — BEGINNING OF YEAR	\$2,467,959	\$ (210,782)
NET LOSS	305,184	2,624,229
DIVIDENDS	—	54,512
DEFICIT — END OF YEAR	\$2,773,143	\$2,467,959

See accompanying notes.

TELSTAR RESOURCES LTD.

Consolidated Statement of Changes in Financial Position

FOR THE YEAR ENDED JUNE 30, 1983

	1983	1982
SOURCE OF WORKING CAPITAL		
Operations		
Net loss	\$ 305,184	\$2,624,229
Items not affecting working capital:		
Depletion and depreciation	701,138	392,234
Oil and gas properties written down	—	2,150,000
Deferred income taxes	16,000	(150,500)
Other	—	155,879
Funds provided from operations	411,954	(76,616)
Working capital acquired on purchase of Park Lane Development Ltd.		
Issuance of common stock	—	2,450,000
Less — Property and equipment per books	—	(188,380)
Excess of purchase consideration over net book value of assets acquired, attributable to petroleum and natural gas properties	—	(1,665,009)
Add — Deferred income taxes	—	30,394
	—	627,005
Issuance of common stock for cash, net	—	2,173,000
Net increase in long-term debt	1,578,740	476,097
Prepaid gas revenue	88,825	12,502
Reclassification to deferred income taxes	31,444	347,000
Decrease in deferred charges	—	18,000
	1,699,009	3,026,599
	\$2,110,963	\$3,576,988
USE OF WORKING CAPITAL		
Net additions to oil and gas properties	\$1,977,747	\$3,077,059
Net additions to (disposals of) other assets	(13,046)	133,545
Dividends	—	54,512
Increase in working capital	146,262	311,872
	\$2,110,963	\$3,576,988

See accompanying notes.

Auditors' Report

We have examined the consolidated balance sheet of Telstar Resources Ltd. as at June 30, 1983 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at June 30, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
September 15, 1983

VENNARD JOHANNESSEN & CO.
Chartered Accountants

Notes to Consolidated Financial Statements

FOR THE YEAR ENDED JUNE 30, 1983

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Telstar Resources Ltd., and its wholly owned subsidiary Park Lane Explorations Inc.

Oil and gas operations

Oil and gas properties are accounted for using the full cost method of accounting, whereby all costs of acquiring, exploring for and developing oil and gas reserves are capitalized on a country-by-country basis. No gain or loss is recognized upon the sale or disposition of oil and gas properties except in significant transactions.

The costs accumulated in the cost centers, together with estimated future capital costs associated with proven reserves, are depleted by the unit of production method which is based on production and estimated proven reserves of oil and gas as determined by independent consultants. In calculating depletion, natural gas reserves and production are converted to equivalent barrels of oil based upon the relative sales value of each product. The cost of significant investments in unevaluated properties is excluded from the depletion base.

Production equipment is recorded at cost and is depreciated at the rate of twenty per cent per year on the diminishing balance basis.

Joint venture accounting

Substantially all exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

Other equipment

Other assets are recorded at cost and except for leasehold improvements, are depreciated on the diminishing balance basis at the following annual rates:

Automotive	30%
Furniture and Fixtures	20%
Computer Equipment	20%

Leasehold improvements are depreciated on a straight-line basis over five years.

Deferred revenue

Deferred revenue represents amounts received in respect of take or pay contracts. Such amounts have been deferred pending ultimate gas delivery or expiration of the contractual delivery period.

Income taxes

The interperiod tax allocation basis of accounting is used with respect to all differences between the time when costs and revenues are recognized for tax purposes and when they are recorded in the Consolidated Statement of Loss.

Foreign currency translation

Current assets and current liabilities are translated from United States to Canadian dollars at the year end exchange rate. Other assets and liabilities are translated at historical rates. Revenue and expense items are translated using average rates of exchange prevailing throughout the year, except for depreciation and depletion which are translated at historical rates. The aggregate exchange gain or loss included in net earnings in the year ended June 30, 1983 was not significant.

Loss per share

Loss per share is calculated by dividing the weighted average number of common shares outstanding during the period into the loss applicable to the common shareholders.

2. PROPERTY AND EQUIPMENT

		1983		1982
	Assets at Cost	Accumulated Depletion, Depreciation and Amortization	Net Investment	Net Investment
CANADA				
Petroleum and natural gas properties including exploration and development costs	\$2,239,533	\$ 502,219	\$1,737,314	\$1,811,960
Production equipment	141,940	101,538	40,402	63,472
Other equipment	187,277	95,878	91,399	132,557
	2,568,750	699,635	1,869,115	2,007,989
UNITED STATES				
Petroleum and natural gas properties including exploration and development costs	6,777,663	745,510	6,032,153	4,678,935
Production equipment	403,421	156,995	246,426	197,207
	7,181,084	902,505	6,278,579	4,876,142
	\$9,749,834	\$1,602,140	\$8,147,694	\$6,884,131

3. LONG-TERM DEBT

	1983	1982
Production loan	\$5,518,280	\$3,939,540

A \$6,000,000 line of credit has been established. Drawdowns thereunder bear an interest rate of prime plus ½%. A standby fee of ½ of 1% is charged on the unused line of credit. Interest is paid monthly. Security for the production loan consists of certain Canadian oil and gas properties and accounts receivable.

Loans under this line of credit are revolving and are not repayable within one year provided that the terms and conditions of the line of credit are met. Because of the terms outlined above, all the debt at June 30, 1983 has been classified as long-term.

The revolving loan may be converted to a non-revolving production loan with an eight year term, specific repayment terms and an interest rate of prime plus ¾% for the first six years and prime plus 1% for the last two years.

4. LIQUIDATION OF PARK LANE DEVELOPMENTS LTD.

Park Lane Developments Ltd. was placed in voluntary liquidation on October 31, 1982. Liquidation distributions of the wholly owned subsidiary were assigned to the parent company Telstar Resources Ltd. The complete liquidation of the subsidiary with distribution to the parent company did not affect any tax liability and no loss or gain was realized on the transfer.

5. SHARE CAPITAL

	Number of Shares	Consideration
Authorized — 20,000,000 common shares with no par value		
Issued		
Balance — June 30, 1983	8,500,014	\$4,623,121

Escrow shares

At September 15, 1983, 3,467,000 shares were held in escrow by the Alberta Securities Commission. These shares will be released as the Commission determines that the underlying asset value for the shares is equal to \$3.50 per share.

6. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The salaries of senior officers as defined in the Alberta Companies Act aggregated \$148,719 in 1983 and \$139,000 in 1982. No remuneration or salaries were paid to directors who were not officers of the Company.

7. SEGMENTED INFORMATION

The Company operates as an oil and gas exploration and production company. The following information relates to the Company's operations in Canada and the United States.

	1983	1982
REVENUE		
Canada	\$ 935,466	\$ 872,663
United States	1,324,524	356,671
	\$2,259,990	\$1,229,334
OPERATING PROFIT (LOSS)		
Canada	402,646	302,046
United States	496,226	(2,122,769)
	898,872	(1,820,723)
INTEREST — LONG-TERM	655,522	529,617
GENERAL AND ADMINISTRATIVE EXPENSES	623,089	478,668
RECOVERY OF INCOME TAXES LESS PROVISION FOR PETROLEUM AND GAS REVENUE TAX	74,555	204,779
NET LOSS	\$ 305,184	\$2,624,229
IDENTIFIABLE ASSETS		
Canada	1,987,528	2,360,673
United States	6,462,805	5,532,532
TOTAL ASSETS	\$8,450,333	\$7,893,205

Corporate Information

Head Office

#400, 635 - 8th Avenue S.W.
Calgary, Alberta
T2P 3M3

Wholly Owned Subsidiaries

Park Lane Exploration Inc.
Calgary, Alberta

Stock Exchange Listing

Alberta Stock Exchange
Trading Symbol:
Shares TST

Registrar and Transfer Agent

The Canada Trust Company
Calgary, Alberta

Legal Counsel

Owens and Sattin
Calgary, Alberta

Auditors

Vennard Johannesen & Co.
Calgary, Alberta

Bank

Bank of Montreal
Calgary, Alberta

Officers

Kenneth M. Kary, President
K. Greg Kary, Vice-President
Rex H. Kary, Secretary-Treasurer

Directors

Kenneth M. Kary, Chairman
K. Greg Kary
Rex H. Kary
Edward L. Owens
John E. Labrecque
S. Patrick Claridge

Common Share Trading Fiscal 1983 Alberta Stock Exchange			
	High \$	Low \$	Share Volume
First quarter	4.35	2.80	64,950
Second quarter	3.60	2.90	31,100
Third quarter	3.70	2.20	89,401
Fourth quarter	3.00	1.50	198,500
Yearly total			383,951



Telstar Resources Ltd.

**400, 635 8th Avenue SW,
Calgary, Alberta
T2P 3M3**